



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

February 11, 1998

The Honorable Robert F. Bennett
Chairman
Subcommittee on Financial Services
and Technology
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510-6075

Dear Chairman Bennett:

I am pleased to submit the OCC's second quarterly report describing the progress national banks have made in their efforts to make their operations year 2000 compliant and our efforts to bring our internal systems into compliance. Our report responds both to questions you posed in an October 14, 1997 letter to the OCC and to questions from Chairman Leach's staff.

Addressing the year 2000 problem is a top supervisory priority for the OCC and the other Federal Financial Institutions Examination Council (FFIEC) member agencies. We are pleased to have the opportunity to brief your staff on our efforts. Please do not hesitate to contact me if I can be of additional assistance.

Sincerely,

Eugene A. Ludwig
Comptroller of the Currency

Enclosure

Q.1 **How is your agency progressing with its own internal Year 2000 remediation and risk management efforts? The answer to this question should include specific information about the identification and assessment of affected systems, the progress of remediation efforts, testing, contingency planning, and budgetary, resource , and personnel issues?**

A.1. Early in 1996, the OCC conducted a complete inventory of all of our internal systems, which included a review of over six million lines of source code and hundreds of documents. Based on this review, we identified 13 critical internal applications and numerous, noncritical applications that required renovation and validation to ensure year 2000 compliance. We grouped all of these applications -- mission critical and non-critical -- into implementation groups based on processing similarities, dependence on data, and our customer base. The OCC then used this application grouping and other information gathered from our analyses to construct a comprehensive project plan designed to ensure year 2000 compliance for all of our internal systems, as well as our work environment. We expect all systems (critical and non-critical) that we plan to keep into the new millennium to be renovated, validated, and certified by September 30, 1998.

The OCC plans to certify or retire eight of its 13 identified mission critical systems within the first five months of this year. To date, we have certified two critical systems as year 2000 compliant and retired a third critical system. We currently are working on and expect to certify five additional critical systems as year 2000-ready by May 31, 1998. This will leave only five critical systems with which to deal before our September 30th goal, placing the OCC ahead of its original schedule.

The OCC expects to spend an additional \$2 million to complete our year 2000 efforts. This figure includes the cost of bringing our workplace environmental systems up-to-date. In 1998 alone, we estimate that we will devote 12 FTEs of OCC staff time, as well as significant contractor support, to ensure the compliance of our internal systems.

In addition to our system work, the OCC also has inventoried its automated interconnections with outside entities to ensure either (1) that all of our external connections are, or will be, year 2000 ready, or (2) we have established procedures to deal with noncompliant data. The OCC also has incorporated year 2000 compliance requirements into all of our contracts and will ensure that all purchased software is tested and certified as year 2000 compliant.

To give the OCC latitude to deal with unexpected problems, we are pressing to renovate, validate, and certify all our systems that we plan to keep into the new millennium by September 30, 1998. To protect against employee payroll delays caused by any stoppage of the National Finance System, year 2000 caused or otherwise, the OCC has a long established arrangement with a local financial institution to meet its payroll obligations.

Q.2 **What steps is your agency taking to monitor and encourage Year 2000 compliance among and within the institutions your supervise? Specifically, you should address your plans for on and off-site examinations, examiner expertise and training, sanctions against non-compliant institutions, and communication with financial institutions and the public. What other sources of information are used to verify an institution's readiness (e.g., internal audits)?**

A.2. The OCC has an extensive monitoring program underway to track, at least quarterly, the progress of national banks and their vendors in making their systems year 2000 compliant. We are conducting on-site examinations of every bank and regional data center to assess where they stand in their year 2000 efforts. We will follow up as needed with each institution when we have supervisory concerns and will take prompt action if any fall behind schedule. In 1999, when testing is underway, we will review testing results as part of our on-site safety and soundness examinations. The OCC also is working closely with the other members of the FFIEC to ensure that the third-party providers of bank data processing products and services have comprehensive year 2000 project management programs in place.

Examinations: As of December 31, 1997, OCC has completed about half of the on-site examinations of national banks and data centers. That includes 1,255 banks and 59 small providers of data processing services. We fully expect to complete our initial year 2000 examination of banks, federal branches and agencies, and service providers by June 30, 1998.

We also implemented a comprehensive examination reporting system that tracks the progress of individual banks. At the close of each examination we collect information to assess whether each bank's year 2000 program remains on schedule. Specifically, OCC has created a database which summarizes the examination findings in the following five areas:

- Management and board involvement;
- Project management process;
- Vendor management;
- Impact on bank customers; and
- Testing.

To ensure the quality of the data, we are reviewing year 2000 examination summaries to ensure consistency in the execution of our year 2000 supervisory strategy. We are giving special attention to possible inconsistencies in these reports -- for example, where banks are given satisfactory ratings but it is not clear that their plan meets all the FFIEC requirements. In these instances, our Assistant Deputy Comptrollers, our first line supervisors, will follow up with examiners who filled out the reports to resolve any discrepancies.

Enforcement: When we find an institution that is behind schedule in its efforts, or one that misses a key benchmark date, the OCC will take the enforcement action necessary to ensure the institution devotes the attention necessary to get back on schedule. For examinations completed to date, we found problems of sufficient magnitude in 234 banks that required

formal documentation and discussions with the boards of directors. Where we have conducted special year 2000 examinations, the OCC has issued approximately 36 supervisory letters which communicate to bank management specific year 2000 deficiencies and the corrective action we expect. During the second quarter, we will follow up and evaluate bank corrective action in each of these 270 banks.

Training: The OCC's primary objective for year 2000 training is to ensure that examiners have sufficient expertise to perform their responsibilities. Our initial training was completed in 1997, providing examiners who were performing the first set of examinations with the necessary knowledge of year 2000 issues. The training involved approximately 600 of our safety and soundness examiners. Additional meetings with the ADCs were held throughout 1997. Members of the Bank Information Systems (BIS)/Technology cadre, the agency's most experienced BIS examiners who examine the year 2000 efforts of our most complex banks and vendor data centers, participated in a four day FFIEC year 2000 training seminar last summer.

We are providing OCC examiners with more advanced training on critical year 2000 issues as the banks progress through the process of testing, remediation and contingency planning. Examiners responsible for performing year 2000 examinations will receive two days of formal training conducted by an auditing firm. Topics will include vendor management, contingency planning, and testing. ADCs and large and mid-sized bank EICs will receive one day of training focusing on broad year 2000 operational issues. We also will produce a year 2000 video that the remainder of the staff will be required to review and discuss with their ADCs and BIS/Technology cadre members. We expect to complete this training by April.

We will provide our examiners with further advanced year 2000 training in the latter half of 1998. The FDIC is heading this joint agency effort. The training will focus on the technical aspects of testing and contingency planning and will provide examiners with tools to better evaluate bank processes and methodologies when testing begins later this year.

Communications: The OCC is working with other members of the FFIEC to finalize three supplements to our interagency policy statements. The vendor management paper will elaborate on the due diligence process for managing key vendor relationships. The customer risk paper will address the responsibilities of senior management and the board of directors for managing the risks that may arise if a financial institution's corporate customers fail to address adequately their year 2000 problems. The testing paper will identify issues that must be considered in developing and implementing a testing program. Drafts currently are under review by the Council's year 2000 working group and should be published by the end of the first quarter.

The OCC has issued additional operational guidance, consistent with FFIEC year 2000 policy. We recently issued an Advisory to alert bankers and examiners that before granting approval of merger applications, OCC will evaluate closely the ability of the resulting institution to implement a bank-wide year 2000 compliant system. In addition, we are finalizing an

Advisory which reminds banks of their obligations to comply with Securities and Exchange Commission disclosure requirements. Finally, we expect to publish a policy statement this month on the OCC's enforcement policy for year 2000 activities. The document supplements existing OCC enforcement policies and ensures consistent nationwide year 2000 enforcement policy and procedures that enable the OCC to act quickly whenever year 2000 deficiencies in mission critical systems are identified.

The OCC is actively engaged in several outreach initiatives, including quarterly FFIEC-sponsored meetings with bank trade associations and several FFIEC-sponsored conferences with major vendors. Senior staff from each of the FFIEC agencies have participated in many year 2000 seminars and conferences sponsored by trade associations. Through participation in these events, the FFIEC agencies have raised awareness and responded to questions from institutions concerning their guidance and expectations. For example, our year 2000 project director has participated in three year 2000 conferences sponsored by the Bank Administration Institute (BAI) and has spoken at numerous other industry year 2000 events. Senior OCC staff also have spoken at year 2000 events sponsored by the Institute for International Bankers, Securities Industry Association, Robert Morris Associates, Independent Bankers Association of America, and others. In addition, senior managers from headquarters and district offices have discussed this issue with bankers during district outreach events all over the country. These meetings provide an opportunity to discuss concerns and reinforce our regulatory expectations of the banks and services we supervise.

Information Sources: The OCC and the other FFIEC agencies are using a number of external sources to assist in assessing bank year 2000 efforts. The OCC has a contract in place with the GartnerGroup, a leading year 2000 consulting firm. We use their expertise to help us understand the more technical aspects of the project management process. Where appropriate, we will use bank audit results to supplement our examination procedures.

Q.3 Based on your examinations since the last briefing, what is your assessment of the industry's progress in preparing for the Year 2000? In your judgement, are there any segments of the industry (based on factors such as asset size, ownership structure , or vendor dependence) which are in danger of not meeting Year 2000 deadlines?

Please provide the actual or your best estimate of the percentage of organizations that fall into each of the following categories (as of December 31, 1997).

- 0 % Organizations not fully aware of the issues.
- 41 % Aware, may have informal inventory and estimates
- 14 % Have a detailed inventory and cost estimates
- 42 % Have a detailed plan, resources allocated, project underway
- 3 % All mission critical changes complete
- 0 % All changes complete

Please indicate what the above information is based on:

The data are based on information provided by our Assistant Deputy Comptrollers (ADCs), our first line supervisors. The information is based both on the results of completed on-site examinations and our off-site contacts with banks.

Please list the numbers and types of Year 2000 enforcement actions taken in the last quarter. What is the current level of preparedness of vendors that serve your institutions? What actions have you taken to address vendor preparedness?

A.3. *Overview:* In general, larger institutions are further along in their project management effort than are smaller banks, but they are finding that they still have a substantial number of year 2000 corrective activities to undertake. Smaller banks have accelerated their efforts since the last quarter, but problems still remain regarding the development of contingency plans and in assessing the year 2000 risk of significant corporate customers. Additionally, many smaller community banks rely heavily on vendors and may not have formal project plans or formal cost estimates to manage their reliance on outside vendors. This is, and will remain, a major focus of our current year 2000 examinations.

As we discussed in our response to question 2, the OCC has documented specific problems in 270 institutions. We are closely monitoring these corrective efforts through follow-up contacts and are prepared to take additional steps to ensure prompt remedial action.

The following sections offer our observations on what we are finding in our examinations at large banks, community banks, and federal branches and agencies. For each of the categories of institutions, we highlight areas where progress has been made, and others where banks need to do more. In all areas where we have identified deficiencies in the banks' year 2000 compliance initiatives, the OCC is devoting sufficient resources to ensure that institutions fully understand our concerns and are rectifying these problems. With respect to bank relationships

with vendors, the OCC plans to speak to the vendors to ensure they are forthcoming with timely and accurate information for the institutions. Finally, with respect to mergers, we recently issued an Advisory alerting bankers and examiners that, before approving merger applications, the OCC will evaluate closely the ability of the resulting institution to implement a bank-wide year 2000 compliant system.

Large Banks:

- The large banks are making a substantial resource commitment to year 2000 project management efforts. However, several institutions' year 2000 projects do not have sufficient senior management oversight.
- Most are well into the renovation stage, with many having started some testing. Many large banks have discovered, as they move through the renovation stage, that the extent and scope of necessary year 2000 corrective activities are greater than had originally been estimated.
- Discussions with data processing vendors and other equipment suppliers are ongoing to determine the availability of year 2000-ready products and services. The quality of vendor response varies greatly, with many vendors and suppliers still reluctant to release information and commit to deadlines.
- Contingency planning needs improvement.
- Most large banks are implementing year 2000 credit risk controls, although overall controls in some banks need to be strengthened.
- Large mergers of similar size institutions will become increasingly difficult to complete successfully, if one of the partners is behind in implementing its year 2000 project plan.

Community Banks:

- All community banks are aware of the problem and have begun taking steps to address year 2000 risks.
- Community banks are dependent upon data processing servicers and bank application software vendors. Most have contacted their servicers or vendors. As with large banks, the quality of vendor response varies greatly.
- An increasing number of institutions have project teams in place that address major year 2000 issues, though project management programs tend to be less formal than with large banks and may not contain formal cost estimates.
- Many community banks do not yet have adequate contingency plans.
- While community banks are beginning to address year 2000 credit risk issues, many still need to establish basic risk controls.

Federal Branches and Agencies:

- Federal branches and agencies are aware of the year 2000 problem and have project teams in place to address year 2000 concerns. Many rely on systems supported by parent organizations.
- Those that do their own program development generally are in the remediation stage, with many having started some testing.
- As with large banks and community banks, federal branches and agencies need to devote more effort toward developing contingency plans.
- Federal branches and agencies compete with large banks in the broadly syndicated loan market. An increasing number are implementing year 2000 credit controls.

Vendors: The FFIEC is coordinating the examinations of the largest data processing service providers and publishers of bank turnkey software. These examinations, which the OCC is coordinating for the FFIEC, will be completed by March 31. They will help member agencies to establish performance benchmarks and identify systemic concerns. These joint examinations will be followed by additional onsite examinations, as necessary. The FFIEC will monitor year 2000 efforts of these companies during formal quarterly reviews.

The following reflects conclusions from vendor examinations conducted by the OCC in the smaller regional independent data centers.

- Vendors are aware of the problem. Many small data centers, however, use turnkey software or data processing services provided by larger vendors. As a result, many independent data centers are dependent upon vendors for year 2000 products and services.
- Vendors have project managers in place to address year 2000 concerns. Many need to increase the resources devoted to year 2000 activities, as well as senior management involvement in overseeing this project.
- Contingency planning continues to be an area of concern.
- The level and quality of year 2000 information shared with client institutions needs to be improved.

Q.4: What steps have you taken or do you plan to take to further the goal of comprehensive testing within the industry you supervise? What is the current status of such testing initiatives?

A.4. Testing is the most critical, time consuming, and difficult aspect of the entire year 2000 project management process. The OCC anticipates testing will account for up to 60 percent of the overall Year 2000 project time and over 50 percent of the cost, particularly for large banks and vendors. The FFIEC and the OCC have emphasized the critical importance of testing and validation in guidance, discussions with senior bank management, and examinations.

The FFIEC expects an institution's testing strategy to focus on two levels: 1) broad system wide testing, including payment systems, exchanges, and clearinghouses; and 2) bank-to-counterparty testing, including testing of bank-to-bank and bank-to-significant corporate client transactions.

The Federal Reserve will play a central role in coordinating broad system-wide year 2000 testing for depository institutions. By the third quarter of 1998, the Federal Reserve expects to begin testing the Fedwire and other services with its counterparties. In addition, payment system providers, such as CHIPS, have similar testing plans in place that will provide further opportunities to coordinate industry testing efforts.

The OCC and the other FFIEC agencies are working closely with bank trade associations regarding their efforts to conduct bank-to-bank and bank-to-counterparty testing. The Bank Administration Institute (BAI) is coordinating the efforts of banks to test their linkages with the Federal Reserve and to conduct testing between individual banks or among multiple banks. The OCC and the FFIEC will continue to monitor these developments. If we determine the bank trade association efforts are not fully successful, the OCC will take whatever action is necessary to make sure national banks perform adequate testing.

To evaluate the effectiveness of an institution's testing methodologies, the examination process focuses on four major elements. First, we expect banks to place their highest priority on testing mission-critical systems and to have testing of these systems well under way by the end of 1998. Second, we expect banks to work with their vendors to ensure that vendors are making adequate progress to remediate and test vendor-provided products and services. Third, we expect banks to test in their own environment vendors products and services to ensure that they work properly. Lastly, we expect banks to test all electronic data exchanges with counterparties, both domestically and internationally.

The FFIEC's current draft guidance on testing provides background information on a host of testing issues and stresses the importance of comprehensive testing of internal systems, whether developed in-house or provided by vendors, as well as external systems - including interfaces with the Federal Reserve, clearinghouses, large borrowers, wholesale depositors, capital market counterparties, and corporate customers. The Federal Reserve Board is

leading an FFIEC effort to draft testing guidance; and that group has received input on testing from industry trade associations. Banks will be expected to develop their testing strategies by June 1998 and they will be expected to test systems using the following key dates: September 9, 1999; January 1, 2000; January 4, 2000; and February 29, 2000.

Q.5. What steps have you taken to prepare contingency plans to contain damage to the financial industry as a whole as a result of systems failures in the Year 2000?

Q.6. What steps have you taken to require the institutions you supervise to prepare contingency plans to contain damage as a result of systems failure in the Year 2000?

A.5&6. The OCC recognizes that contingency planning is essential to prepare for and contain damage from year 2000-related system failures that may affect specific banks or the financial industry as a whole. The scope of our interagency effort covers the evaluation of individual bank contingency planning efforts as well as developing regulatory contingency plans in case we encounter significant year 2000 failures within the financial industry.

Financial Institutions Contingency Planning: The OCC has focused efforts on ensuring that banks have developed contingency plans. The banking regulators also are working through the FFIEC to ensure that we share our specialized knowledge and skills. The OCC is examining all banks that we supervise to ensure each has a contingency plan in place. Our examination findings reveal that many national banks have not done enough and we are taking action to ensure that each bank develops appropriate contingency plans.

The FFIEC has provided guidance to the industry on contingency planning. The May 1997 Interagency Statement specified that all banks are expected to develop contingency plans. In December, the FFIEC's Business Risk guidance provided additional details on contingency planning. Specifically, the guidance outlined the points that an institution should consider in its contingency plans, including the need for trigger dates, quarterly reviews, and the availability of alternative systems. As national banks and those supervised by other FFIEC members gained a deeper technical understanding of year 2000 contingency planning, it became clear that additional guidance was needed. Forthcoming guidance will address further aspects of contingency planning.

System-wide Contingency Planning: An FFIEC working group is continuing to develop specific contingency plans for dealing with bank systems failures caused by the year 2000. Regulatory contingency plans will be essential for responding quickly to operational problems in the banks the OCC and the other FFIEC agencies supervise. As a part of our contingency planning, the FFIEC and member agencies are working together to determine the conditions under which an institution would be placed into receivership and how such action would be carried out. An FFIEC group, comprised of supervisory, legal, and resolution experts and led by the FDIC, is reviewing a wide range of issues, including: data management; the resolution process; and the payment of deposit insurance claims, particularly where a bank's books and records are unreadable or non-existent.

Q.7. What steps have you taken to encourage public awareness of the Year 2000 problem and encourage consumers to inquire into the preparedness of the financial institutions with which they do business? For example, what questions would you recommend customers ask their financial institutions to assess Year 2000 readiness? What disclosures about Year 2000 compliance, if any, are you requiring of the institutions you supervise?

A.7. Educating bank customers about the Year 2000 problem will be critical to minimize customer problems, build public confidence, and avoid unnecessary public alarm that could cause serious problems for financial institutions and, ultimately, the banking public. To date, we have focused primarily on getting our message out to the banking industry through public speaking engagements, trade group meetings, press statements, and publicizing our supervisory efforts. We recognize, however, the need for efforts by banks and regulators that are specifically aimed at ensuring that bank customers understand the Year 2000 issue and actions the regulators and banks are taking to minimize potential disruptions.

A bank has a clear obligation to disclose to its customers the extent to which its computer systems are Year 2000 ready. Many banks, either directly or through their holding companies, will issue disclosures relating to anticipated costs, problems, and uncertainties associated with the measures undertaken to operate systems beyond the Year 2000. These disclosures are required under recent Securities and Exchange Commission guidelines, and the OCC is about to issue an advisory letter reminding banks of these requirements.

Of course, despite efforts by regulators and the banking industry, it is possible that some banks will experience serious year 2000-related problems. To respond to this possibility, it will be important for banks to provide their customers with information as to the steps they should take in the case of service disruptions at their institution, and to outline their plans for minimizing any service disruptions to individual customers. Public education efforts by the regulators should also help build public confidence by educating the public about the regulatory and monetary measures taken to prevent any systemic disruptions of the financial system.

As noted above, in developing a coordinated public education effort, it is important that we avoid creating undue alarm that would create liquidity difficulties and unnecessarily damage to the financial system. Runs on bank deposits cause problems not just for individual banks, but also for the entire financial system, and they exacerbate the problems of some categories of bank customers who are less able to undo their banking relationships (e.g., trust customers). We must make certain that banks provide appropriate information about the extent to which their systems will be ready for the century date change. At the same time, our public awareness efforts should provide adequate information about bank and regulatory efforts to prepare for the Year 2000 and inform bank customers about contingency plans in case banks experience unexpected disruptions in their systems.

Q.8. What formal or informal guidance have you provided to the institutions you supervise on the process of managing credit risk associated with the Year 2000 problem? How are financial institutions managing this risk?

A.8. The FFIEC's May, 1997 Interagency Statement outlines in broad terms the due diligence process that banks should adopt to assess their credit risk exposure. The FFIEC is finalizing additional guidance outlining regulatory expectations for managing the risks that the year 2000 poses to bank borrowers. The guidance will be issued in March.

The FFIEC is focusing on the risk control processes banks should use to manage year 2000 related credit risks arising from three categories of customers: fund takers (e.g., borrowers and bond issuers), fund providers (e.g., wholesale and retail depositors), and capital market counterparties. Specifically, we expect depository institutions to:

- Identify customers who represent material year 2000 related credit risk to their institutions;
- Assess their year 2000 readiness;
- Evaluate the overall year 2000 related credit risk exposure posed by these customers; and
- Implement appropriate risk management controls.

The risk management controls that institutions adopt will vary depending on their size, the complexity of their asset and liability mix, and their risk appetite and culture. The FFIEC guidance will provide several examples of how risk controls can be implemented.

Also, the OCC has represented the FFIEC at a number of events sponsored by Robert Morris Associates, which provided forums to discuss both year 2000 credit risks with industry representatives as well as regulatory expectations directly with bankers. FFIEC representatives have discussed year 2000 customer risks and risk management controls at other conferences and seminars, as well.

Our assessments and onsite examinations have revealed that most large banks are implementing year 2000 credit risk management controls, although the sophistication of those controls differs. Many community banks have not yet put appropriate year 2000 credit risk management controls in place despite general awareness of the potential risks. For banks which are not adequately addressing year 2000 credit risk, follow-up supervisory action is underway.

We are seeing an increasing number of banks write year 2000 language into loan agreements. Examples of year 2000 loan documentation include:

- Representations by borrowers that they have a year 2000 program in place;
- Requirements that the borrowers disclose their year 2000 plans;
- Warranties that borrowers will complete their year 2000 plans;

- Reporting requirements for borrowers to provide their banks with year 2000 status reports;
- Covenants allowing the institution to evaluate a borrower's year 2000 readiness efforts;
- Covenants ensuring that adequate resources are deployed to complete the year 2000 effort; and
- Default provisions providing maturity acceleration should any year 2000 representation, warranty or covenant be breached.

We are cautioning depository institutions not to become a consultant to their borrowers and are advising all depository institutions to consult with their legal counsel when they begin drafting year 2000 specific language into loan and credit agreements.

Q.9: How are foreign financial institutions and their governments progressing in response to the year 2000 problem? What impact is their level of compliance likely to have on the United States financial services industry? Are the institutions you supervise taking preventative measures and developing contingency plans to address problems that might arise in relationships with overseas institutions?

A.9. Outside the United States, progress in addressing the year 2000 problem is mixed. Most foreign bank supervisors have taken initial steps, such as contacting banks and issuing general guidance, but some foreign bank supervisors have only begun to address the year 2000 problem within the past four or five months. While foreign banks are taking steps to prepare for the year 2000, we are concerned that many have not adopted sufficiently comprehensive project management processes. We are also concerned that some countries may not have the access to the technical expertise necessary to perform year 2000 program remediation.

The OCC is concerned about the level of year 2000 awareness outside the United States. We believe that the level of awareness of year 2000 issues in the G-10 countries is generally below that of the United States, but increasing rapidly. The level of awareness declines outside the G-10, although it is better in the banking sector than in other sectors of those economies.

Foreign institutions could affect U.S. banks in a number of ways. First and most obvious, a U.S. bank's information systems could be infused with inaccurate data if foreign institutions (e.g., foreign banks, securities issuers, dealers, clearinghouses, exchanges) are not ready, or transmissions may fail altogether. Second, a U.S. bank could be exposed to credit risk arising from a foreign borrower's (or other counterparty's) inability to honor its obligations. Third, U.S. branches of foreign banks may be exposed to risks arising from operational failures at their parent banks. Fourth, U.S. banks operating overseas may face difficulties in exchanging data with systems in other countries.

The OCC, the Federal Reserve Board, and the Federal Deposit Insurance Corporation have taken steps to focus the international supervisory community on the year 2000 issue, recognizing that this is a matter of global dimensions. We currently are working with foreign supervisors through the Basle Committee to ensure that foreign banks and their supervisors are fully aware of the issue, and we are encouraging foreign bank supervisors to take more aggressive remedial action. In September 1997, the Basle Committee published a paper that outlines the steps that banks and their supervisors need to take to prepare for the year 2000. The Basle Committee has sent copies of that paper to banking supervisors in more than 150 countries.

Several other international organizations are addressing the year 2000 problem. For example, the International Organization of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS), and the Joint Forum on Financial Conglomerates have issued year 2000 alerts. In addition, the Bank for International Settlements (BIS), the Committee on Payment and Settlement Systems, the Basle Committee, and the IAIS are hosting a public round table on the year 2000 on April 8, 1998. We also have contacted

officials at the European Commission, and they are considering whether to increase the Commission's oversight to ensure that European financial institutions take adequate steps to prepare themselves to meet the challenges of the year 2000.

OCC examiners continue to talk to the largest national banks and data centers, and to the federal branches we supervise that are active in foreign currency transactions and foreign lending, to find out what effect the scheduled 1999 introduction of the new Euro currency will have on year 2000 remediation efforts. European banks and businesses face considerable challenges to modify their systems to handle the Euro. There is some concern that European companies may not have sufficient programming resources to successfully complete both the transition to the EMU and year 2000 projects. We have surveyed our largest national banks and are satisfied, at this point, that the EMU reprogramming requirements for national banks are substantially less than European banks. We do not expect that EMU projects at U.S. banks will significantly drain those institutions' ability to meet their year 2000 deadlines. We continue, however, to watch the situation closely.

To a great extent, we must rely on foreign governments and private businesses abroad to achieve year 2000 compliance worldwide. No matter how well banks and their supervisors prepare for the century date change, we cannot eliminate the risk that a large foreign bank or borrower will find itself in trouble because of year 2000 problems. Thus, we are monitoring the level of exposure national banks have to foreign banks and borrowers and are working with the international supervisory community to coordinate year 2000 policy and renovation efforts.